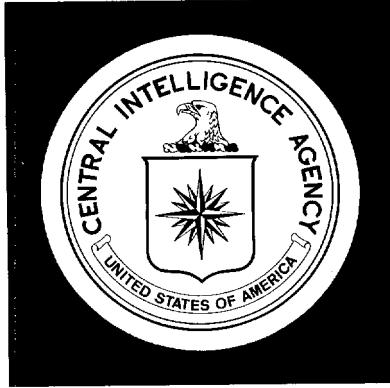


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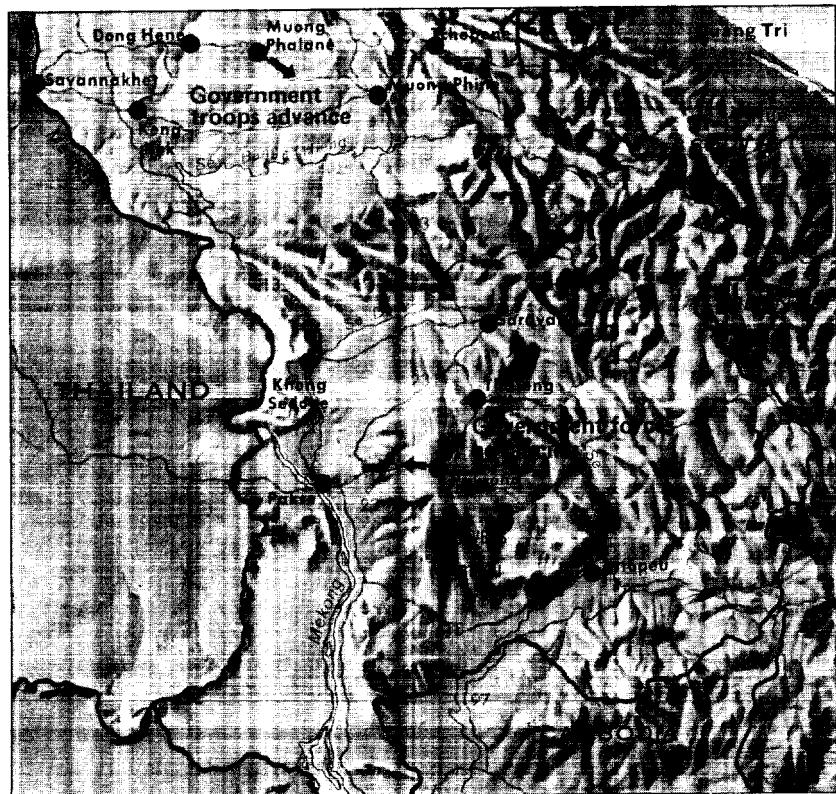
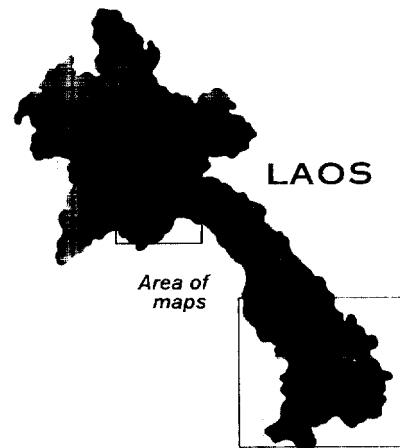
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LAOS: The government continues to hold the military initiative in the south.

Four government battalions are pushing west from Paksong to link up with other irregular troops attempting to move forward from the western edge of the Bolovens Plateau. Another four-battalion irregular force is moving north from Paksong to clear enemy forces from the northern sector of the plateau. Only three infantry battalions of the North Vietnamese 968th Division remain on the Bolovens and these are hampered by supply shortages and other problems.

In the central panhandle, irregular forces are pursuing the North Vietnamese 29th Independent Regiment, which is withdrawing to the south and east after staging an unsuccessful defense of the village of Muong Phalane. This regiment has suffered significant casualties and lost about 40 tons of supplies plus some heavy equipment since the fighting began in the central panhandle in late October.

Combat remains at a low level in the north as the Communists continue preparations for an assault on Bouam Long. Vang Pao has frequently used Bouam Long as a staging base for operations against Communist supply lines north of the Plaine. It withstood Communist sieges in both 1970 and 1971. [redacted]

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USSR-CHINA-VIETNAM: Moscow and Peking have thus far reacted with restraint to the increased US bombing of North Vietnam.

The Soviet Union yesterday protested damage to a Soviet ship in Haiphong harbor, but the protest note was brief, pro forma, and apparently intended mainly to make the incident a matter of record. It routinely warned that the US bears full responsibility for the "possible dangerous consequences of such actions" and charged that the lives of Soviet seamen were endangered. Neither the note nor the Soviet official who presented it suggested that any Soviet casualties had occurred.

Meanwhile, Soviet media are giving extensive, but relatively low-key treatment to Vietnam. The only authoritative comment so far is a relatively mild TASS statement issued on 19 December. In contrast to a similar statement last April, it did not say that US bombing would complicate the international situation as a whole and made no pledge of support for the North Vietnamese. The Soviets have also limited their reaction in other ways. The Foreign Ministry hosted a reception on 19 December to show a film of President Nixon's visit to the USSR, and the atmosphere was described as cordial and apparently unaffected by Vietnam developments.

Peking's initial authoritative reaction--a Foreign Ministry statement issued on 20 December--is basically a restatement of long-standing Chinese positions and views. The only portion of the statement that used harsh rhetoric said that the "Chinese Government and people express their utmost indignation at and strongly condemn" US bombing, which it called "a most serious step," and an "act of aggression." Stronger rhetoric was used when the bombing was resumed last spring. Peking also said that the US must sign the agreement drafted in October to bring the war to an end. This has been the standard Chinese line since 26 October.

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Taken as a whole, the statement appears to represent little more than the minimum that Peking can safely say under the circumstances. Nowhere in the statement, for instance, does Peking register alarm that prospects for an eventual agreement have been jeopardized or hint that the turn of events has broader implications for Chinese policy in Southeast Asia or elsewhere. Peking neither expresses explicit backing of Vietnamese Communist terms for an agreement nor pledges stepped up political and military support for Hanoi--even though a North Vietnamese Foreign Ministry statement issued on 19 December specifically asks for the latter from Hanoi's friends.

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EAST GERMANY - POLAND: Mounting problems from the year-old "open borders" agreement have led the two countries to reimpose some travel controls.

Warsaw and Pankow last weekend announced the reimposition of custom duties and import restrictions for Polish tourists returning from East Germany. This followed Warsaw's imposition last month of a currency exchange limit of 200 East German marks on Polish tourists. These are the first moves the two governments have made to alter any of the terms of the "open border" agreement concluded last January.

Since that time, Polish visitors have outnumbered their East German counterparts by 3 million. Massive Polish purchases of East German consumer goods--some for black-marketing in Poland--caused balance-of-payments difficulties and led to criticism by East Germans because of shortages of popular items. The influx of Polish tourists--over 9 million have visited East Germany this year--also raised latent ethnic animosities in some areas.

The liberal travel program was an unprecedented effort by both regimes to deflect the popular desire for travel to the West. It has been under constant scrutiny by top leaders, and Premiers Jaroszewicz and Stoph met on 30 November to review the situation. Additional remedial measures, such as encouraging group tours, may be in the offing. The leaders have been quick to point out, however, that permit-free "open-border" travel will not be abrogated, and they continue to hold the program up as an example of intrabloc cooperation.

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CUBA-PANAMA: Havana's release of two Panamanian-flag merchant ships captured on the high seas by the Cuban Navy late last year is further evidence of the Castro regime's determination to exploit anti-US sentiment in the hemisphere and to cultivate friendly relations with countries willing to demonstrate their independence of the US. The ships, which had been the subject of lengthy negotiations between the Cubans and Panamanians, began the trip to Panama yesterday morning manned by Panamanian crews. So far, the Cuban press has made no mention of the fate of several former crew members who were jailed when the ships were captured, but Panama's foreign minister reportedly has said they have already been turned over to Panamanian officials with the understanding that they will be prosecuted under Panamanian law for the allegedly illegal anti-Castro activities they engaged in while serving aboard the ships. The agreement to release the ships will probably not result in any significant change in Cuban-Panamanian relations; Castro has already stated that he does not expect diplomatic recognition from the Panamanians because this might create problems for them with the US.

* * * *

USSR: A sudden cold wave in European Russia coupled with lack of snow cover is causing concern in the USSR about the prospects for next year's winter grain harvest. Last year a January cold spell was the main factor in the loss of production from almost one third of the area sown to winter wheat and rye. Although it is too early to assess the prospects for winter-kill, the winter grain crop got off to a bad start this fall. In some areas grain was sown up to one month behind schedule because of the dry ground, and the total area planted--20 percent below plan--was the smallest in the last two decades. Thus, even "normal" amounts of winter-kill could reduce next year's acreage of winter grains available for harvest to the low 1972 level.

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MEXICO: A leading Japanese electronics firm has recently acquired a 43-percent interest in a Mexican firm that manufactures television receivers. Until now Japanese private investment in Mexico has been concentrated in the automotive sector. The firm will increase its capacity by 4,000 units a month ostensibly to supply local demand, but the move may be geared to facilitate further Japanese penetration of the US market. The venture resembles earlier Japanese investment in three Canadian television assembly plants which now supply local and US consumers. The Japanese acquisition also indicates that the Mexican Government still welcomes foreign investment that could increase exports, despite a recent flurry of official rhetoric against foreign capital.

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